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STATE PASS AID/ANE D. WINSTON  
COMMERCE FOR ITA FOR ZHEN GONG CROSS  
MILLENNIUM CHALLENGE CORP WASHDC FOR F.REID  
TREASURY PASS USED TO IMF, WORLD BANK  
MANILA AND LONDON FOR USED TO ADB, EBRD

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SUBJECT: Visiting Canadian Trade Minister Advises Against State  
Ownership of Natural Resources

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11. (SBU) SUMMARY: Canadian International Trade Minister David Emerson's 24 hour visit to Mongolia, the first by a Canadian Minister in over 10 years, included meetings with President N. Enkhbayar, Prime Minister S. Bayar, Foreign Minister Oyun, and his counterpart at the Ministry of Industry and Trade Kh. Narankhuu. Minister Emerson also spoke at a business breakfast largely attended by Canadian mining firms active in Mongolia. At meetings with the GOM and business representatives, Emerson made clear that the Government of Canada (GOC) sought to discourage the Government of Mongolia's (GOM) apparent insistence on owning and perhaps even operating mines. However, he also signaled that Canada would engage with Mongolia in the important mining sector, would support several initiatives to improve mining administration and would begin negotiations on a bilateral investment agreement with the GOM in March. Emerson assured the business community that Canada intended to support their positions before the GOM and that the GOC would raise its profile in Mongolia. A local Canadian businessman was made Canada's Honorary Consul, filling a position vacant these past 18 months. The Charge'and the British Ambassador respectively

explained U.S. and British approaches to moving investment forward.  
END SUMMARY.

#### President Enkhbayar Bangs The Old Time Socialist Drum

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12. (SBU) At the North American Mongolian Business Council's January 10 breakfast with business and diplomatic representatives, Minister Emerson described the results of his meetings the previous day with GOM senior officials. Emerson said he met with President Enkhbayar, whom he characterized as extremely well informed, articulate, and visionary. After this brief encomium, Emerson expressed concern that Enkhbayar's approach to mining was too statist for Canadian tastes, saying that Enkhbayar was behind many of the efforts to re-nationalize Mongolia's natural resources, in spite of clear evidence that this was not the best development path. Emerson recounted for Enkhbayar that Canada, much to its regret, had already tried nationalized resource businesses in mining and lumber, and that those efforts had largely failed to produce sustainable, efficient industries, forcing Canada to eventually privatize those industries in the end. Canada's experience, and that of other nations, demonstrated that a sound legal and administrative framework could achieve the state's financial and social goals for its environment and people more effectively than outright government ownership and operation of assets.

#### PM Bayar's Pragmatic Government More Encouraging Than Presidential Visions

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13. (SBU) Emerson collectively praised PM Bayar, Foreign Minister S. Oyun, and MIT Minister Narankhuu for their pragmatic approach to

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developing Mongolia's resources. While the three senior GOM officials acknowledged the severe political pressures for nationalization impinging on Mongolia's development process, each of them also recognized and agreed with the GOC's view that the GOM needed foreign investment to bring its mines on line, and they agreed with GOC views that government ownership of assets was not the best way to develop them. However, ministerial discussions revealed that the GOM simply lacked the statutory and regulatory apparatus needed to manage its resources effectively even as just a regulator, much less than as an owner. In response, Emerson stated that the GOC intended to provide technical assistance to help the GOM improve its regulatory framework. (Comment: Local analysts say it is this gulf between the GOM's fear that it won't get its fair share of Mongolia's mineral wealth and its inability to regulate the sector to that end that is, as much as anything, driving GOM attempts to nationalize assets, based on a belief that if the GOM owns a piece of the pie outright, then it will at least get something from natural resource extraction. Given that at least 30% of the GOM's budget is underwritten by the state-owned Erdenet copper mine, Mongolia's insistence on state participation is explainable. End Comment.)

14. (SBU) Emerson also formally announced that the GOC would enter into negotiations with the GOM on an investment agreement, the "Foreign Investment Promotion and Protection Agreement," the aim of which is to boost Canada's trade ties with Mongolia. Canada is Mongolia's second-largest investor, with about US\$397 million worth of assets in the country, and the prospective agreement would give investors from either country legally binding rights in the other. Emerson stated that "our desire to put in place an investment agreement with Mongolia is a clear expression of Canada's commitment to building a strong long-term partnership."

#### Interaction with Canadian Mining Business, Diplomats, and NGO Representatives

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15. (SBU) During the January 10 breakfast, Minister Emerson and his delegation also heard a range of viewpoints regarding the GOM's approach to mining. Mining representatives delivered consistent points to the Minister. Firms stated they are able and willing to handle the commercial aspects of their respective businesses, but

they want and need foreign governments to project a united front to the GOM to cover their political flank. In short, the mining companies told Canada to join U.S., British, Japanese, Australian and German efforts to encourage (cajole, harangue, etc.) the GOM into staying out of the mining business while creating a transparent, predictable, best practice-based, rule of law approach to regulating and profiting from its resource base.

16. (SBU) The British Ambassador echoed these sentiments. He noted that Mongolia had not really grasped the implications of its "Third-Neighbor" policy. Her Majesty's government was reconsidering

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its level of engagement with Mongolia because Britain had little of substance on the ground. If Mongolia wanted the British relationship to continue or increase, it had to do what was necessary to get British investment. If Mongolia really wants to balance China and Russia with investment and political support from Britain, the U.S., Canada, Japan, etc., then it must create and sustain an environment conducive to investment.

17. (SBU) The Charge' agreed with the British position, noting the USG had consistently and constantly encouraged the GOM to create and sustain a solid market environment for all investors. He added that attracting investment also depended on Mongolia giving full and careful consideration as well as a timely decision to major development project proposals such as the copper-gold mine at Oyu Tolgoi.

Chances For A Canadian Embassy In Mongolia Seem Slim

18. (SBU) Minister Emerson went out of his way to assure his fellow Canadians that Canada intended to represent their interests more assiduously. He noted that this first ministerial visit in 10 years clearly indicated Canada's growing interest in Mongolia. (Note: Minister Emerson's Policy Advisor told Commoft that he had to "beg" Minister Emerson to take a day in Mongolia. Apparently, the Minister was concerned about the distance between Beijing and Ulaanbaatar (two hours flight time). The Advisor also pointed out that Canada had at least US\$400 million invested in Mongolia with the prospect of more in coal, uranium, services, etc., and that the Minister should give some push to an emerging portfolio.) He pointed out that Canada had just the previous day formally installed a new Honorary Canadian Consul, Mr. Alain Fontaine, a very accomplished French Canadian who serves as the CEO of one of Mongolia's largest technology and infrastructure firms.

Comment

19. (SBU) The visit by Canadian Trade Minister Emerson has provided a temporary boost in attention here and perhaps in Canada, but it is important to note that neither the Mongolians nor the Canadians present seemed to be much moved by Canadian protestations of interest. One prominent local businessman was extremely indifferent, saying he used to get excited about Canadian promises to set up shop in Mongolia, but he has been disappointed so many times that he no longer believes GOC promises. After all, the Minister provided no time tables for raising the profile on the ground. And it was only after Canadian firms protested loudly to Ottawa in recent years that their Beijing Embassy increased the frequency of its brief TDY visits to UB from annual to quarterly to monthly levels, albeit not always consistently nor with the right officer at the right level. And even the Honorary Consul post was left vacant for 18 months. Nonetheless, from post's perspective, it was useful for senior

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Mongolian officials to hear messages similar to our own from a senior Canadian minister representing their second largest investor, and one which can speak from experience of the faults of state ownership and participation in the mining sector. END COMMENT.

Goldbeck

